



# The Commonwealth of Massachusetts

## DEPARTMENT OF PUBLIC UTILITIES

D.P.U. 17-05

November 30, 2017

Petition of NSTAR Electric Company and Western Massachusetts Electric Company, each doing business as Eversource Energy, Pursuant to G.L. c. 164, § 94 and 220 CMR 5.00 et seq., for Approval of General Increases in Base Distribution Rates for Electric Service and a Performance Based Ratemaking Mechanism.

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I. INTRODUCTION

On January 17, 2017, NSTAR Electric Company (“NSTAR Electric”)<sup>1</sup> and Western Massachusetts Electric Company (“WMECo”), each doing business as Eversource Energy (collectively, “Eversource” or “Companies”) filed a petition with the Department of Public Utilities (“Department”) seeking approval of increases in base distribution rates for electric service pursuant to G.L. c. 164, § 94 (“Section 94”), as well as other proposals. NSTAR Electric’s last base distribution rate proceeding was in 2005. Boston Edison Company, Cambridge Electric Light Company, Commonwealth Electric Company, NSTAR Gas Company, D.T.E. 05-85 (2005). WMECo’s last base distribution rate proceeding was in 2010. Western Massachusetts Electric Company, D.P.U. 10-70 (2011).

At the time of the initial filing in this matter, NSTAR Electric and WMECo existed as individual, wholly owned subsidiaries of Eversource Energy (Exh. ES-GMBC-1, at 24). However, the subsidiaries were operated on a fully consolidated basis, with two geographic areas designated as “Eversource East” (NSTAR Electric’s service area) and “Eversource West” (WMECo’s service area) (Exh. ES-GMBC-1, at 24). The service area designated as Eversource East encompasses the City of Boston and surrounding communities, extending west to Sudbury, Framingham, and Hopkinton, as well as communities in southeastern Massachusetts extending from Marshfield, south through Plymouth, Cape Cod, and Martha’s Vineyard, and west through New Bedford and Dartmouth (Exh. ES-GMBC-1, at 24). Within

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<sup>1</sup> NSTAR Electric is comprised of three operating units – Boston Edison Company, Cambridge Electric Light Company, and Commonwealth Electric Company (Exh. ES-RDP-1, at 5). See also BEC Energy/Commonwealth Energy Systems, D.T.E. 99-19 (1999).

this geographic area, NSTAR Electric serves approximately 1.2 million residential and commercial and industrial (“C&I”) customers in approximately 80 communities, covering approximately 1,700 square miles (Exh. ES-GMBC-1, at 24-25).

The service area designated as Eversource West encompasses the City of Springfield and surrounding communities, extending west to the New York border and north to Greenfield and the Vermont border (Exh. ES-GMBC-1, at 25). Within this geographic area, WMECo serves approximately 209,000 residential and C&I customers in approximately 59 communities in western Massachusetts, covering approximately 1,500 square miles (Exh. ES-GMBC-1, at 25).

In the instant case, Eversource seeks to increase NSTAR Electric’s rates to generate \$56.1 million in additional revenues, an approximate 6.6 percent increase over current total operating revenues (Exh. ES-DPH-2 (East), Sch. DPH-1 (Rev. 4)).<sup>2</sup> Eversource seeks to increase WMECo’s rates to generate \$34.7 million in additional revenues, an approximate 25.4 percent increase over current operating revenues (Exh. ES-DPH-2 (West), Sch. DPH-1 (Rev. 4)).<sup>3</sup> The cost of service component of the Companies’ filing is based on a test year of July 1, 2015 through June 30, 2016 (Exhs. ES-CAH-1, at 8; ES-DPH-1, at 8).

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<sup>2</sup> In its initial filing, Eversource sought to increase NSTAR Electric’s rates to generate \$60.2 million, a seven percent increase over current operating revenues (Exh. ES-DPH-2 (East), Sch. DPH-1). Eversource revised the proposed increase during the course of this proceeding.

<sup>3</sup> In its initial filing, Eversource sought to increase WMECo’s rates to generate \$35.7 million, a 27 percent increase over current operating revenues (Exh. ES-DPH-2 (West), Sch. DPH-1). Eversource revised the proposed increase during the course of this proceeding.

The Companies' requested rate increase includes the recovery of merger-related costs and, for WMECo, exogenous costs associated with a settlement approved by the Department in NSTAR/Northeast Utilities Merger, D.P.U. 10-170 (2012) and discussed below in additional sections of this Order. The Companies also request approval, pursuant G.L. c. 164, § 96 ("Section 96"), to complete the corporate consolidation of NSTAR Electric and WMECo. Further, NSTAR Electric proposes, pursuant to Investigation into Rate Structures that will Promote Efficient Deployment of Demand Resources, D.P.U. 07-50-A (2008), to implement a rate mechanism to decouple its electric revenues from its sales.

The Companies also propose to implement a performance-based ratemaking ("PBR") mechanism that would allow each company to adjust its distribution rates on an annual basis through the application of a revenue-cap formula. Within the PBR mechanism, the Companies propose to undertake \$400 million in incremental capital investments over the next five years on projects the Companies state are designed to integrate distributed energy resources and improve service reliability, including projects to develop electric vehicle infrastructure and electric-storage capabilities. The Companies also propose to implement a credit/debit card payment system that will allow customers to pay their bills electronically without a transaction fee. Further, the Companies propose to make certain changes to their existing storm fund mechanisms, vegetation management programs, and methods used to recover property taxes.

Finally, the Companies' initial filing included a number of rate design proposals, including the elimination of separate rates for NSTAR Electric's three operating units (i.e., Boston Edison Company, Cambridge Electric Light Company, and Commonwealth Electric Company) and the establishment of one rate for each rate class; the consolidation and alignment of NSTAR Electric's and WMECo's general service rate classes; the consolidation of a number of reconciling mechanism rates; the introduction of a new optional time-of-use rate (rate G-5) for certain small general service (rate G-1) customers; and the implementation of a monthly minimum reliability contribution ("MMRC") rate for new customers seeking to install distributed generation. In their initial filing, the Companies did not propose to consolidate the distribution rates of NSTAR Electric and WMECo. On June 1, 2017, the Companies filed a revised rate design proposal that contained several key differences from the Companies' initial filing. In particular, the Companies now propose to: (1) consolidate the revenue requirements of NSTAR Electric and WMECo for rates effective January 1, 2018 and January 1, 2019; (2) maintain existing rate classes, using legacy cost allocation studies, for rates effective January 1, 2018; (3) consolidate rate classes and rates for NSTAR Electric's and WMECo's residential customers effective January 1, 2019; (4) retain rate class WR in 2019; and (5) modify the proposed transmission revenue allocation and rate design, the low-income discount, and certain components of the MMRC rate.

The Department docketed this matter as D.P.U. 17-05 and suspended the effective date of the proposed rate increases to investigate the propriety of the Companies' request. The Companies have requested that any new rates approved in this proceeding be

implemented in two phases, with the first phase to take effect on January 1, 2018, and the second phase to take effect on January 1, 2019.

## II. PROCEDURAL HISTORY

On January 25, 2017, the Attorney General of the Commonwealth of Massachusetts (“Attorney General”) filed a notice of intervention pursuant to G.L. c. 12, § 11E (a). The following entities were granted full party intervenor status: (1) Acadia Center; (2) Associated Industries of Massachusetts (“AIM”); (3) the City of Cambridge; (4) the towns of Aquinnah, Barnstable, Bourne, Brewster, Chatham, Chilmark, Dennis, Edgartown, Eastham, Falmouth, Harwich, Mashpee, Oak Bluffs, Orleans, Provincetown, Sandwich, Tisbury, Truro, West Tisbury, Wellfleet, and Yarmouth, as well as Barnstable County and Dukes County, acting together as the Cape Light Compact (collectively, “Cape Light Compact”); (5) Conservation Law Foundation (“CLF”); (6) Department of Energy Resources (“DOER”); (7) the Federal Executive Agencies (“FEA”); (8) Low-Income Weatherization and Fuel Assistance Program Network and the Massachusetts Energy Directors Association (“Low Income Network”); (9) Northeast Clean Energy Council (“NECEC”); (10) Retail Energy Supply Association (“RESA”); (11) The Energy Consortium (“TEC”); (12) University of Massachusetts (“UMass”); and (13) Western Massachusetts Industrial Group (“WMIG”).

The following entities were granted limited intervenor status: (1) the Town of Barnstable; (2) Cape and Vineyard Electric Cooperative (“CVEC”); (3) ChargePoint, Inc. (“ChargePoint”); (4) Choice Energy, LLC (“Choice Energy”); (5) Direct Energy Business,

LLC, Direct Energy Business Marketing, LLC, Direct Energy Services, LLC, and Direct Energy Solar, LLC (collectively, as “Direct Energy”); (6) the Energy Consumers Alliance of New England, Inc., d/b/a Massachusetts Energy Consumers Alliance (“Mass. Energy”) and the Sierra Club; (7) the City of Newton and the Towns of Arlington, Lexington, Natick and Weston (“Municipalities”); (8) PowerOptions, Inc. (“PowerOptions”); (9) Sunrun, Inc. (“Sunrun”) and the Energy Freedom Coalition of America, LLC (“EFCA”); and (10) Vote Solar.<sup>4</sup> Finally, the following entities were granted limited participant status: (1) The Berkshire Gas Company; (2) Massachusetts Electric Company and Nantucket Electric Company, each d/b/a National Grid; (3) the Massachusetts Water Resources Authority; (4) Microgrid Resources Coalition; (5) the Union of Concerned Scientists; and (6) Wal-Mart Stores East, LP.

Pursuant to notice duly issued on January 30, 2017, the Department held ten public hearings in the Companies’ service areas: (1) in Natick on March 22, 2017; (2) in Boston on March 23, 2017; (3) in Cambridge on March 30, 2017; (4) in Barnstable on April 3, 2017; (5) in New Bedford on April 5, 2017; (6) in Plymouth on April 6, 2017; (7) in Pittsfield on April 10, 2017; (8) in Springfield on April 12, 2017; (9) in Tisbury on April 24, 2017; and (10) in Greenfield on April 26, 2017. The Department also received written comments from numerous public officials and NSTAR Electric and WMECo ratepayers.

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<sup>4</sup> Regarding intervention and limited intervention, see D.P.U. 17-05, Hearing Officer Ruling on Petitions for Intervention at 6-8 (July 17, 2017); D.P.U. 17-05, Hearing Officer Ruling on Petitions for Intervention at 5-9 (March 13, 2017).

On June 9, 2017, the Department issued an Interlocutory Order that allowed for additional public hearings, discovery, and testimony addressing the investigation of the Companies' revised rate design proposal. D.P.U. 17-05, Interlocutory Order at 13-14 (June 9, 2017) ("Interlocutory Order"). Pursuant to the Interlocutory Order, the Department will issue a separate Order to address rate design issues. Interlocutory Order at 14.<sup>5</sup>

Pursuant to notice duly issued on June 23, 2017, the Department held three additional public hearings in the Companies' service area to receive comment on the revised rate design proposal: (1) in Boston on July 26, 2017; (2) in Pittsfield on August 1, 2017; and (3) in Barnstable on August 2, 2017. The Department also received additional written comments from public officials and NSTAR Electric and WMECo ratepayers.

The Department held 15 days of evidentiary hearings from June 7, 2017, through June 29, 2017, to address the non-rate design issues raised in the Companies' initial filing. The Department held four days of evidentiary hearings from September 11, 2017 through September 14, 2017, to address all aspects of the Companies' initial and revised rate design proposals.

In support of the Companies' filings, the following witnesses, all of whom are employed by Eversource Energy Service Company ("ESC"), have provided testimony:

(1) Craig Hallstrom, President, Regional Electric Operations for Massachusetts and

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<sup>5</sup> Based on the revenue requirements approved in this Order, the Department directs the Companies to provide updated allocated cost of service studies and bill impacts in the same format as set forth in responses to Record Requests DPU-49 and DPU-50. This update will be provided for illustrative purposes only. The Companies shall make this filing within five (5) business days of this Order.

Connecticut; (2) Penelope M. Conner, Chief Customer Officer and Senior Vice President; (3) Douglas P. Horton, Director, Revenue Requirement – Massachusetts; (4) Paul R. Renaud, Vice President of Engineering-Massachusetts; (5) Jennifer A. Schilling, Director of Strategy and Performance; (6) Samuel G. Eaton, Project Director, Electric Vehicle Charging and Energy Storage; (7) Sasha Lazor, Director, Compensation; (8) Michael P. Synan, Director, Benefits Strategy; (9) Vera L. Admore-Sakyi, Director, Vegetation Management; (10) Leanne M. Landry, Director, Budget and Investment Planning; (11) Edward A. Davis, Director of Rates; (12) Richard D. Chin, Manager of Rates; (13) Jessica Cain, Vice President of Customer Operations; and (14) Karen Hodge, Manager of Load Settlement and Analysis. In addition, the following outside consultants provided testimony on behalf of the Companies: (1) Mark E. Meitzen, Ph.D, Vice President, Christensen Associates; (2) Dennis L. Weisman, Professor Emeritus of Economics, Kansas State University; (3) Carl G. Degen, President, Christensen Associates; (4) Robert B. Hevert, Partner, ScottMadden, Inc.; (5) John J. Spanos, Senior Vice President, Gannett Fleming Valuation and Rate Consultants LLC; (6) James D. Simpson, Senior Vice President, Concentric Energy Advisors; (7) David A. Heintz, Vice President, Concentric Energy Advisors; and (8) Melissa F. Bartos, Assistant Vice President, Concentric Energy Advisors.

The Attorney General sponsored the testimony of the following witnesses:

- (1) David Dismukes, Ph.D., Consulting Economist, Acadian Consulting Group;
- (2) J. Randall Woolridge, Ph.D., Professor of Finance, Goldman, Sachs & Co. and Frank P. Smeal Endowed University Fellow in Business Administration at the University

Park Campus of the Pennsylvania State University; (3) David Effron, Consultant, Berkshire Consulting Services; (4) Donna Ramas, Principal, Ramas Regulatory Consulting, LLC; (5) Gregory L. Booth, P.E., President, PowerServices, Inc., UtilityEngineering, Inc., and Booth, PLLC; (6) Scott J. Rubin, independent consultant; and (7) William W. Dunkel, Principal, William Dunkel and Associates.

Acadia Center sponsored the testimony of: (1) Abigail Anthony, Ph.D., former Director, Grid Modernization Initiative, Rhode Island; and (2) Mark LeBel, Staff Attorney, Acadia Center. The Town of Barnstable sponsored the testimony of: (1) Douglas N. Riley, Esq.; and (2) Daniel Wolf, Chief Executive Officer, Cape Air. The City of Cambridge sponsored the testimony of Stephen J. Lenkauskas, City Electrician.

CVEC sponsored the testimony of: (1) Paul Gromer, president, Peregrine Energy Group; (2) Jennifer Rand, Town Administrator, West Tisbury; and (3) Carol A. Woodbury, Superintendent of Schools, Dennis-Yarmouth Regional School District. Cape Light Compact sponsored the testimony of: (1) Paul L. Chernick, president, Resource Insight, Inc.; (2) Kevin F. Galligan, president, Galligan Energy Consulting, Inc.; (3) Karl Rábago, Executive Director, Pace Energy and Climate Center at the Elisabeth Haub School of Law; and (4) Jonathan F. Wallach, Vice President, Resource Insight, Inc.

ChargePoint sponsored the testimony of Michael K. Waters, Director, Utility Solutions (East), ChargePoint. CLF, Mass. Energy, and the Sierra Club jointly sponsored the testimony of Douglas B. Jester, Partner, 5 Lakes Energy LLC. FEA sponsored the testimony of: (1) Michael P. Gorman, Managing Principal, Brubaker & Associates, Inc.;

and (2) Amada M. Alderson, Senior Consultant, Brubaker & Associates, Inc. The Municipalities sponsored the testimony of: (1) William H. Ferguson, Energy Program Manager, City of Newton; (2) Mark Sandeen, Managing Director, RePower Partners LLC; (3) Jillian Wilson-Martin, Sustainability Coordinator, Town of Natick; and (4) Donna VanderClock, Town Manager, Town of Weston.

RESA sponsored the testimony of Frank Lacey, independent consultant. Sunrun and EFCA jointly sponsored the testimony of: (1) Tim Woolf, Vice President, Synapse Energy Economics; (2) Melissa Whited, Senior Associate, Synapse Energy Economics; and (3) David J. Garrett, Managing Member, Resolve Utility Consulting, PLLC. TEC sponsored the testimony of James D. Bride, Principal, Energy Tariff Experts, LLC.

UMass sponsored the testimony of: (1) Raymond Jackson, Director, Physical Plant Division, UMass; (2) Michael McGerigle, Deputy Director, Facilities, UMass; and (3) Richard Silkman, Ph.D., Chief Executive Officer, Competitive Energy Services, LLC.

Finally, Vote Solar sponsored the testimony of: (1) Ronald J. Binz, public policy consultant; and (2) Nathan Phelps, Program Manager, Distributed Generation Regulatory Policy, Vote Solar.

Following the June 2017 evidentiary hearings, the following parties filed initial and reply briefs: (1) Eversource; (2) Acadia Center; (3) the Attorney General; (4) Cape Light Compact; (5) ChargePoint; (6) Choice Energy; (7) DOER; (8) FEA; (9) Low Income Network; (10) Mass. Energy and the Sierra Club; (11) NECEC; (12) RESA; (13) Sunrun and

EFCA; (14) Vote Solar; and (15) WMIG and TEC. The following parties filed only initial briefs: (1) AIM; (2) CLF; and (3) UMass.

Following the September 2017 rate design-related hearings, the following parties filed initial and reply briefs related to rate design issues: (1) Eversource; (2) Acadia Center; (3) Attorney General; (4) Cape Light Compact; (5) City of Cambridge; (6) CVEC; (7) DOER; (8) FEA; (9) Low Income Network; (10) Municipalities; (11) NECEC; (12) Sunrun and EFCA; (13) TEC; (14) Town of Barnstable; (15) UMass; (16) Vote Solar; and (17) WMIG.

The evidentiary record includes responses to 242 sets of information requests issued to the Companies, intervenors, and limited intervenors and responses to 111 record requests.

### **III. VERIFICATION OF NSTAR ELECTRIC'S ANNUAL RETURNS AND DISTRIBUTION RATE BASE ASSETS**

#### **A. Introduction**

Pursuant to a settlement between the Companies, DOER, and NSTAR Gas Company (“NSTAR Gas”) (“DOER Settlement”) approved in D.P.U. 10-170 (see also Sections V.A and VIII.M below),<sup>6</sup> NSTAR Electric was required to file with the Department an independent study that included: (1) an examination and verification of the annual returns to the Department for the four-year period ending December 31 of the test-year period; and (2) verification of the assets contained in NSTAR Electric’s distribution rate base as of the test year end, developed through a systematic review as described in the National Association of Regulatory Commissioners (“NARUC”) Rate Case and Audit Manual (DOER Settlement

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<sup>6</sup> Pursuant to 220 CMR 1.10(3), the Department incorporates by reference the DOER Settlement filed and approved in D.P.U. 10-170-B.

at Art. 3.3 & n.1). In its decision approving the DOER Settlement, the Department directed NSTAR Electric to submit the required information by April 15, 2015, or 60 days prior to the filing of its next base rate case, whichever occurred first. D.P.U. 10-170-B at 3, 66.

Pursuant to the DOER Settlement, the examination and verification of NSTAR Electric's annual returns and the verification of the company's distribution rate base assets was to be conducted by an independent accounting firm identified through a competitive bid process conducted by NSTAR Electric in consultation with the Attorney General and DOER (DOER Settlement at Art. 3.3). More specifically, the Attorney General and DOER were to select the independent accounting firm, subject to the consent of NSTAR Electric (DOER Settlement at Art. 3.3). The costs of the independent study would not be eligible for rate recovery (DOER Settlement at Art. 3.3).

With respect to the examination and verification of NSTAR Electric's annual returns, the selected independent accounting firm was tasked to verify the mathematical accuracy of the returns; verify that the operating costs reported in the annual returns reconcile to NSTAR Electric's financial statements, including, but not limited to, the company's audited income statement and balance sheet; and confirm that the annual returns were rendered in accordance with regulatory accounting standards and requirements, as applicable (DOER Settlement at Art. 3.3).

Regarding the verification of NSTAR Electric's distribution rate base assets, the systematic review was to include a comprehensive listing of assets, and include a verification of assets in plant-in service, plant held for future use, construction work in progress,

gains/losses from property sales, and acquisition adjustments/goodwill (DOER Settlement at Art. 3.3 n.1).

Finally, as part of its decision in D.P.U. 10-170, the Department directed NSTAR Electric to provide the following additional information, traceable to the annual returns, for calendar years 2012 through 2015:<sup>7</sup> (1) total operations and maintenance (“O&M”) expense; (2) depreciation and amortization; (3) taxes other than income taxes; (4) income taxes; (5) total plant in service; (6) rate of return; and (7) total operating revenues by rate component. D.P.U. 10-170-B at 23, 66.<sup>8</sup>

Following a competitive bid process, Ernst & Young, LLP (“Ernst & Young”) was selected to perform the independent accounting study of NSTAR’s Electric’s annual returns and distribution rate base assets (Exh. ES-DPH-1, at 8, 11-12). On April 15, 2015, NSTAR Electric submitted the verification of its annual returns performed by Ernst & Young for calendar years 2010 through 2014 (Exhs. ES-DPH-1, at 10; ES-DPH-4, Sch. DPH-2, at 56-60). On October 30, 2015, following extensions granted by the Department, NSTAR Electric submitted: (1) the rate base examination performed by Ernst & Young as of December 31, 2014; and (2) information regarding the aforementioned seven categories of

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<sup>7</sup> As part of its decision in D.P.U. 10-170, the Department approved a base rate freeze applicable to the distribution rates of NSTAR Electric, NSTAR Gas, and WMECo, so that base rates in effect on January 1, 2012, remained in place until January 1, 2016. D.P.U. 10-170-B at 18-19, 107.

<sup>8</sup> For purposes of this additional information, the Department directed NSTAR Electric to provide the information separately for each of its component companies: Boston Edison Company, Cambridge Electric Light Company, and Commonwealth Electric Company. D.P.U. 10-170-B at 66 n.67.

financial information for calendar years 2012 through 2015 (Exhs. ES-DPH-1, at 10; ES-DPH-4, Sch. DPH-2, at 5-27, 76-79). On November 15, 2016, NSTAR Electric submitted Ernst & Young's verification of the company's 2015 annual return (Exhs. ES-DPH-1, at 11; ES-DPH-4, Sch. DPH-2, at 66-70). The same day, NSTAR Electric submitted the rate base examination performed by Ernst & Young updated through June 30, 2016, the end of the test year in this case, and information regarding the seven categories of financial information, also updated through June 30, 2016 (Exhs. ES-DPH-1, at 11; ES-DPH-4, Sch. DPH-2, at 34-49, 81-82).

B. Positions of the Parties

On brief, the Companies summarize the scope and results of Ernst & Young's work and, in particular, note that the verification of the assets in NSTAR Electric's distribution rate base supports the company's rate base computation used to develop its cost of service (Companies Brief at 152-156). Thus, the Companies assert that Ernst & Young's examination of NSTAR Electric's rate base assets provides an independent verification that the company's computed rate base is accurate and appropriate to use in computing NSTAR Electric's revenue requirement (Companies Brief at 156). No other party addressed the independent accounting study of NSTAR Electric's annual returns and distribution rate base assets.

the Department approves Eversource's proposed adjustment to WMECo's income tax expense related to property taxes in the amount of \$2,226,850.

Q. Pension and Post-Retirement Benefits Other than Pension Expense

1. Introduction

The Companies propose to consolidate their current pension adjustment mechanisms ("PAMs") in this proceeding (RR-DPU-51, Att. (a) at 108-111 (proposed M.D.P.U. No. 522)). As part of this proposal, Eversource proposes to collect all pension/post-retirement benefits other than pension ("PBOP") costs through the PAM (Exh. DPU-14-6).

NSTAR Electric's current PAM was approved by the Department in D.T.E. 03-47-A, and established separate, fully reconcilable, annual adjustment factors for NSTAR Electric (and NSTAR Gas) to recover the portion of the pension/PBOP costs not collected in base rates (Exh. DPU-14-6). Eversource states that NSTAR Electric currently has \$31,490,920 of pension/PBOP costs embedded in base distribution rates (Exhs. ES-DPH-1, at 186; ES-DPH-5 (Rev. 1)).<sup>166</sup> Meanwhile, WMECo's PAM, which was approved by the Department in Western Massachusetts Electric Company, D.T.E. 06-55 (2006), already recovers all of its pension/PBOP costs.

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<sup>166</sup> Eversource states that the \$31,490,920 in pension/PBOP costs represents the base amount of approximately \$32,609,000 of pension/PBOP costs initially included in base rates in D.T.E. 03-47, adjusted for changes due to NSTAR Electric's Simplified Incentive Plan ("SIP") and a final SIP adjustment factor of 109.47 percent, less the amount allocated to transmission based on the wages and salaries allocator of 11.79 percent (Exhs. ES-DPH-1, at 187-188; ES-DPH-3 (East), WP DPH-28, at 2 (Rev. 3)).

at 6-9. Eversource reports that it has partial or full ownership responsibilities at hazardous waste sites, including those of former MGP facilities, and thus retains liabilities for environmental remediation costs at these locations (Exh. AG-1-2, Att. (a) at 21 (Supp. 1)). Thus, although WMECo failed to comply with the directives of D.P.U. 10-70, we are satisfied that WMECo never acquired an ownership interest in the gas operations of Amherst Gas or Easthampton Gas. Rather, the Department finds that the joint and several liability provisions of federal and state environmental laws places environmental remediation responsibilities associated with former MGP sites on WMECo.

S. Inflation Allowance

1. Introduction

Eversource proposes an inflation allowance of \$2,832,290 for NSTAR Electric and \$868,686 for WMECo (Exhs. ES-DPH-3 (East), WP DPH-22, at 1 (Rev. 3); ES-DPH-3 (West), WP DPH-22, at 1 (Rev. 3)).<sup>168</sup> To arrive at these proposed adjustments, Eversource first calculated a proposed inflation factor of 4.527 percent using the most recent forecast of the gross domestic product implicit price deflator (“GDPIPD”) (as sourced from the Bureau of Economic Analysis of Moody’s Analytics) from the midpoint of the test year to the

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<sup>168</sup> In its initial filing, Eversource proposed an inflation allowance of \$3,070,102 for NSTAR Electric and \$942,355 for WMECo (Exhs. ES-DPH-1, at 134; ES-DPH-3 (East), WP DPH-22, at 1; ES-DPH-3 (West), WP DPH-22, at 1). Eversource subsequently revised its proposed inflation allowances based on updated expense reporting.

midpoint of the rate year (Exhs. ES-DPH-1, at 134; ES-DPH-3 (East), WP DPH-22, at 1 (Rev. 3); ES-DPH-3 (West), WP DPH-22, at 149-62 (Rev. 3)).<sup>169</sup>

Next, Eversource took NSTAR Electric's adjusted test year O&M expense of \$273,888,542, and subtracted \$211,324,149, which represents adjusted test year expenses associated with the various O&M expense categories for which Eversource seeks separate adjustments (Exhs. ES-DPH-1, at 134; ES-DPH-3 (East), WP DPH-22, at 1 (Rev. 3)).<sup>170</sup> Finally, Eversource multiplied the 4.527 percent inflation factor by \$62,564,393 in adjusted test year residual O&M expenses to arrive at a proposed inflation allowance of \$2,832,290 for NSTAR Electric (Exhs. ES-DPH-3 (East), WP DPH-22, at 1 (Rev. 3)).

Similarly, Eversource took WMECo's adjusted test year O&M expense of \$59,758,644, and subtracted \$40,569,643, which represents adjusted test year O&M expenses associated with the various categories for which Eversource seeks separate adjustments

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<sup>169</sup> In its initial filing, Eversource calculated a proposed inflation factor of 4.870 percent using the change in GDPIP from the midpoint of the test year to the midpoint of the rate year (Exhs. ES-DPH-1, at 133; ES-DPH-3 (East), WP DPH-22, at 1; ES-DPH-3 (West), WP DPH-22, at 1). Eversource subsequently updated its proposed inflation factor during the course of the proceedings.

<sup>170</sup> Eversource seeks separate adjustments for the following NSTAR Electric expense categories: (1) postage expense; (2) uncollectible expense; (3) fee free payment processing; (4) dues and memberships; (5) employee benefits costs; (6) insurance expense and injuries and damages; (7) payroll expense; (8) variable compensation; (9) vegetation expense annualization; (10) vegetation management resiliency tree work pilot; (11) rate case expense; (12) regulatory assessments; (13) lease expense; (14) information systems expense adjustment; (15) amortization of GIS costs; (16) storm cost adjustment; and (17) storm fund adjustment (Exh. ES-DPH-3 (East), WP DPH-22, at 1 (Rev. 3)).

(Exhs. ES-DPH-1, at 134; ES-DPH-3 (West), WP DPH-22, at 1 (Rev. 3)).<sup>171</sup> Eversource then multiplied the 4.527 percent inflation factor by \$19,189,000 in adjusted test year residual O&M expenses to arrive at a proposed inflation allowance of \$868,686 for WMECo (Exh. ES-DPH-3 (West), WP DPH-22, at 1 (Rev. 3)).

## 2. Positions of the Parties

Eversource argues that its method of calculating an inflation allowance, including the use of GDPIP, is consistent with Department precedent (Companies Brief at 225-226, citing D.P.U. 15-155, at 314; D.P.U. 15-80/81, at 188; D.P.U. 14-150, at 248; D.P.U. 13-75, at 251; D.P.U. 08-35, at 154-155; D.T.E. 02-24/25, at 184; D.P.U. 95-40, at 64; D.P.U. 92-250, at 97-98). Accordingly, Eversource asserts that the Department should approve its proposed inflation allowance adjustments to NSTAR Electric's and WMECo's costs of service (Companies Brief at 226). No other party commented on Eversource's proposed inflation allowances.

## 3. Analysis and Findings

The inflation allowance recognizes that known and inflationary pressures tend to affect a company's expenses in a manner that can be measured reasonably. D.T.E. 02-24/25, at 184; D.T.E. 01-56, at 71; D.T.E. 98-51, at 100-101; D.P.U. 96-50 (Phase I) at 112-113;

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<sup>171</sup> Eversource seeks separate adjustments for the following WMECo expense categories: (1) postage expense; (2) uncollectible expense; (3) fee free payment processing; (4) dues and memberships; (5) employee benefits costs; (6) insurance expense and injuries and damages; (7) payroll expense; (8) variable compensation; (9) vegetation management resiliency tree work pilot; (10) rate case expense; (11) regulatory assessments; (12) lease expense; (13) information systems expense adjustment; (14) storm cost adjustment; and (15) storm fund adjustment (Exh. ES-DPH-3 (West), WP DPH-22, at 1 (Rev. 3)).

D.P.U. 95-40, at 64. The inflation allowance is intended to adjust certain O&M expenses for inflation where the expenses are heterogeneous in nature and include no single expense large enough to warrant specific focus and effort in adjusting. D.P.U. 1720, at 19-21; Commonwealth Electric Company, D.P.U. 956, at 40 (1982). The Department permits utilities to increase their test year residual O&M expense by an independently published price index from the midpoint of the test year to the midpoint of the rate year. D.P.U. 15-155, at 314-315; D.P.U. 08-35, at 154-155; D.T.E. 02-24/25, at 184; D.P.U. 95-40, at 64; D.P.U. 92-250, at 97-98. In order for the Department to allow a utility to recover an inflation adjustment, the utility must demonstrate that it has implemented cost-containment measures. D.P.U. 09-30, at 285; D.P.U. 08-35, at 154; D.T.E. 02-24/25, at 184; D.T.E. 01-56, at 71-72.

In the instant case, Eversource has demonstrated a number of cost-containment measures it has taken throughout the course of regular operations including the use of competitive solicitation processes for vendors and targeted programs designed to reduce healthcare expenses (Exhs. ES-MPS-1, at 8-11; DPU-13-20; DPU-21-20; DPU-45-27; AG-1-52). In addition, the Companies have demonstrated that they have taken reasonable measures to control property and liability insurance expense (Exh. ES-DPH-1, at 61-62). Eversource also has provided system-wide examples of cost reductions achieved through the merger approved in D.P.U. 10-170-B, including measures that reduced the residual O&M expenses that are subject to the proposed inflation allowance (Exhs. ES-DPH-4, Sch. 10; DPU-13-20). Based on these considerations, the Department finds that Eversource

demonstrated that it has implemented cost-containment measures sufficient to qualify it for an inflation allowance.

Eversource calculated its proposed inflation factor from the midpoint of the test year to the midpoint of the rate year, using the most recent GDPIP as an inflation measure (Exh. ES-DPH-1, at 134). This calculation method and use of GDPIP are consistent with Department precedent. D.P.U.15-155, at 315; D.P.U. 08-35, at 154-155; D.T.E. 02-24/25, at 184; D.P.U. 95-40, at 64; D.P.U. 92-250, at 97-98. Therefore, the Department concludes that Eversource has properly calculated an inflation factor of 4.527 percent (Exh. ES-DPH-3 (East), WP DPH-22, at 1, lines 49-62 (Rev. 3); ES-DPH-3 (West), WP DPH-22, at 1, lines 49-62 (Rev. 3)).

If an O&M expense has been adjusted or disallowed for ratemaking purposes such that the adjusted expense is representative of costs to be incurred in the year following new rates, the expense also is removed in its entirety from the inflation allowance. D.P.U. 09-39, at 322; D.T.E. 05-27, at 204; D.T.E. 02-24/25, at 184-185; Blackstone Gas Company, D.T.E. 01-50, at 19 (2001); D.P.U. 88-67 (Phase I) at 141; Commonwealth Gas Company, D.P.U. 87-122, at 82 (1987). Eversource has proposed adjustments to 17 expense categories for NSTAR Electric and 15 expense categories for WMECo (see nn.170, 171 above). The Department finds that Eversource has correctly excluded the O&M categories for which it seeks separate adjustments from the calculation of the inflation allowances. In addition, the Department has adjusted the Companies' expenses related to service company charges and

insurance policy distribution (see Sections VIII.B.3 and VIII.I.3 above). The effect of the Department's adjustments are shown below in Tables 1 and 2.

Based on the above, the Department finds that an inflation allowance adjustment equal to the most recent forecast of GDPIP for the period proposed by the Companies, applied to NSTAR Electric's and WMECo's approved levels of residual O&M expense, is appropriate. As shown in Table 1, below, the approved inflation allowance for NSTAR Electric is \$2,824,948 (Exh. ES-DPH-3 (East), WP DPH-22, at 1 (Rev. 3)). As shown in Table 2, below, the approved inflation allowance for WMECo is \$867,630 (Exh. ES-DPH-3 (West), WP DPH-22, at 1 (Rev. 3)).

**Table 1:**

<b>Test Year O&amp;M Expense Per Books:</b>	\$273,888,542
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**Less Normalizing Adjustments:**

Postage Expense	\$4,352,322
Uncollectibles Expense	\$15,073,652
Fee Free Payment Processing	-
Dues and Memberships	\$784,558
Employee Benefits Costs	\$19,870,555
Insurance Expense And Injuries and Damages	\$7,289,021
Payroll Expense	\$119,525,370
Variable Compensation	\$18,170,774
Vegetation Expense Annualization	\$5,283,642
Vegetation Management Resiliency Tree Work Pilot	-
Rate Case Expense	-
Regulatory Assessments	\$6,713,485
Lease Expense	\$3,660,277
Information Systems Expense Adjustment	\$6,100,492
Amortization of GIS Costs	-
Storm Cost Adjustment	-
Storm Fund Adjustment	\$4,500,000

<b>Total Company O&amp;M Adjustments:</b>	\$211,324,149
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Subtotal (Adjusted per Books Less Company Adjustments)	\$62,564,393
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**Less DPU Excluded Expenses**

Eversource Service Company Charges	\$3,778
Insurance Policy Distribution	\$158,407

Total Excluded Test Year Expenses	\$162,185
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Residual O&M Expense	\$62,402,208
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Inflation Factor from Midpoint of Test Year to Midpoint of Rate Year:	4.527%
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<b>Inflation Allowance:</b>	\$2,824,948
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**Table 2:**

<b>Test Year O&amp;M Expense Per Books:</b>	\$59,758,644
<b>Less Company Adjusted Items:</b>	
Postage Expense	\$956,609
Uncollectibles Expense	\$5,163,634
Fee Free Payment Processing	-
Dues and Memberships	\$124,820
Employee Benefits Costs	\$3,047,400
Insurance Expense And Injuries and Damages	\$1,630,157
Payroll Expense	\$23,173,030
Variable Compensation	\$3,177,908
Vegetation Management Resiliency Tree Work Pilot	-
Rate Case Expense	-
Regulatory Assessments	\$1,148,553
Lease Expense	\$749,592
Information Systems Expense Adjustment	\$1,397,941
Storm Cost Adjustment	-
Storm Fund Adjustment	-
<b>Total Company O&amp;M Adjustments:</b>	\$40,569,643
Subtotal (Adjusted per Books Less Company Adjustments)	\$19,189,000
<b>Less DPU Excluded Expenses</b>	
Eversource Service Company Charges	\$662
Insurance Policy Distribution	\$22,675
<b>Total Excluded Test Year Expenses</b>	\$23,337
<b>Residual O&amp;M Expense</b>	\$19,165,663
Inflation Factor from Midpoint of Test Year to Midpoint of Rate Year:	4.527%
<b>Inflation Allowance:</b>	\$867,630